STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF EXAMINATION

OF

BENEFICIAL LIFE INSURANCE COMPANY

OF

SALT LAKE CITY, UTAH

AS OF

DECEMBER 31, 2000

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December 14, 2001

Honorable Alfred W. Gross, Commissioner
Chair, Financial Condition (E) Committee, N.A.I.C.
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
Richmond, Virginia 23218

Honorable Robert A. Lohr, Director
Secretary, Western Zone, N.A.I.C.
Department of Community & Economic Development
Division of Insurance
P.O. Box 110805
Juneau, Alaska 99811-0805

Honorable Merwin U. Stewart, Commissioner
State of Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114-6901

In accordance with your instructions and in compliance with insurance laws of the State of Utah, an examination of the financial condition and business affairs of

BENEFICIAL LIFE INSURANCE COMPANY
Of
Salt Lake City, Utah

a stock life insurance company, hereinafter referred to as the Company, was conducted as of December 31, 2000.

SCOPE OF EXAMINATION

Period Covered by Examination

Representatives of the Nevada, Delaware, Mississippi, and Utah Insurance Departments conducted the last examination of the Company as of December 31, 1996. The current examination covers the period from January 1, 1997, through December 31, 2000, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination. This examination was conducted under the association plan of the National Association of Insurance Commissioners ("NAIC") with the Nevada Insurance Department representing the Western Zone, Zone IV.

Examination Procedure Employed

The examination included a general review and analysis of the Company's operations and a determination of its financial condition as of December 31, 2000. Material assets were valued and ownership verified. Liabilities were determined in accordance with laws, rules, and procedures prescribed by the State of Utah. The examination was conducted in accordance with generally accepted standards and procedures of regulatory authorities relating to such examinations. It included tests of the accounting records and a review of the Company's affairs and practices to the extent deemed necessary.

The Company retained the services of a certified public accounting firm to audit its financial records for the years under examination. The firm provided requested working papers prepared in connection with its audits. A Utah Insurance Department ("Department") examiner participated in a securities count with the firm's auditors. Reliance was placed on the count of securities not directly verified by the examiner. In addition, the firm's confirmation of "borrowed money" from the Company's parent and information regarding pending or threatened litigation, claims, and assessments received from the Company's legal representatives were relied on. The firm specified that the representatives need not include any pending or threatened litigation, claim or assessment involving potential losses or gains whose expected effects on the Company's financial statements would be less than $500,000 unless the aggregate for all such individual amounts was more that $500,000.

The examiners relied on the findings of an actuarial firm contracted by the Department to verify life insurance premiums and annuity considerations deferred and uncollected on in force business and the aggregate reserve for life policies and contracts. Examiners were responsible for testing the completeness of the records provided to the firm and the accuracy of the underlying data used to establish reserve amounts.

A letter of representation certifying that management has disclosed all significant matters and records was obtained from management and has been included in the examination working papers.

Status of Adverse Findings, Material Changes in the Financial Statement, and Other Significant Regulatory Information Disclosed in the Previous Examination

The previous examination, as of December 31, 1996, decreased the Company's reported surplus by $16,085,385. The decrease resulted primarily from non-admitted "Yankee Bonds" in the amount of $13,315,685 and a reduction in the reported equity value of a subsidiary, Pacific Heritage Assurance Company in the amount of $1,498,722. "Yankee Bonds" were not admitted because they were not qualified assets. Effective February 24, 1997, by Department rule, "Yankee Bonds" became permitted investments. Pacific Heritage Assurance Company was merged into the Company in 1998. Other items of significance or special interest noted in the prior examination report have been addressed by the Company or have received further comment in this report.

HISTORY

General

The Company was organized under the laws of the State of Utah as a capital stock life insurance company on May 5, 1905. The original incorporators were primarily members and associates of The Church of Jesus Christ of Latter-day Saints. In 1927, The Corporation of the President of The Church of Jesus Christ of Latter-day Saints, a Utah Corporation sole, ("Corporation of the President"), acquired all of the outstanding capital stock of the Company excluding directors' qualifying shares. Subsequent changes allowed the Corporation of the President to acquire the qualifying shares and become sole owner of the Company's outstanding capital stock by 1970. Since 1928, all of the stock of the Company has been owned by the Corporation of the President, by directors holding their shares for voting purposes in trust for the Corporation of the President, or by a wholly owned subsidiary of the Corporation of the President.

The Company operates under Utah Code Annotated ("U.C.A.") Title 31A. As of December 31, 2000, the Company was authorized to transact life, annuity and disability lines of insurance. No changes were made to the Company's articles of incorporation or bylaws during the examination period.

Capital Stock

As of the examination date, the Company had authorized capital of $10,000,000, divided into 400,000 shares of common stock with a par value of $25 per share. One hundred thousand shares were issued and outstanding for a total of $2,500,000 paid in capital and $29,106,890 paid in and contributed surplus. As of December 31, 2000, Deseret Management Corporation, a holding company affiliated with The Church of Jesus Christ of Latter-day Saints, held one hundred percent of the Company's capital stock.

Changes in capital and surplus paid in since organization are shown in the following exhibit:

Year	Number of Shares Issued	Par Value Per Share	Capital Paid In	Surplus Paid In	Notes
1905	1,000	$100	$ 100,000		(1)
1912	1,000	100	100,000		
1924	(2,000)	100	(200,000)		(2)
1924	8,000	25	200,000		(3)
1924	2,000	25	50,000		
1946	20,000	25	500,000		(4)
1960	10,000	25	250,000		
1960				$ 500,000	
1961				50,000	
1962				1,000,000	
1976	4,000	25	100,000		(4)
1984	56,000	25	1,400,000	9,556,890	
1993				18,000,000	
Totals	100,000		$2,500,000	$29,106,890	

(1) At organization
(2) Change in par value - exchanged
(3) Change in par value - issued
(4) Stock dividend

Dividends to Stockholders

Dividends paid to stockholders during the period covered by the examination are summarized below:

Year	Paid in Cash
1997	$ 1,000,000
1998	19,000,000
1999	17,100,000
2000	1,500,000
Total	$ 38,600,000

The Company provided notice to the Utah Insurance Commissioner ("Commissioner") of the declaration of extraordinary dividends in 1998 and 1999 as required by U.C.A. § 31A-16-106(2). None of the dividends was disapproved by the Commissioner.

Management

Directors, officers, and board committee members serving the Company on December 31, 2000, follow:

Directors:

Name - Location	Principal Occupation
Harold C. Yancey, Chairman Centerville, Utah	Retired
Kent H. Cannon Salt Lake City, Utah	President & Chief Executive Officer Beneficial Life Insurance Company
Nolan E. Karras Roy, Utah	Registered Investment Advisor Raymond James Financial Services
William R. Walker Salt Lake City, Utah	Retired
Rulon E. Rasmussen Salt Lake City, Utah	President Rasmussen Financial Group
Mary Anne Q. Wood Provo, Utah	Attorney Wood, Crapo L.L.C.
Ned C. Hill Provo, Utah	Dean of Marriott School of Management Brigham Young University
William H. Nelson Salt Lake City, Utah	President Intermountain Health Care

Officers:

Name	Position
Harold C. Yancey	Chairman of the Board
Kent H. Cannon	President and Chief Executive Officer
Vincent S. Benfell	Executive Vice President and Chief Marketing Officer
Bruce H. Cundick	Senior Vice President and Chief Financial Officer
Ted D. Lewis	Senior Vice President, General Counsel and Secretary
Christopher M. Miller	Senior Vice President
Michael R. Weiler	Vice President and Chief Actuary

Errol S. Phippen	Vice President – Agency Operations
Steven W. Terry	Vice President and Chief Information Officer
Peggy M. Stone	Vice President – Human Resources
Alden B. Larsen	Vice President – Group Operations
Ronald L. Owen	Vice President – Consumer Operations
Hardi K.Jenkins	Vice President – Product Development

Subsequent to the examination period, Bruce H. Cundick resigned. Michael R. Weiler was appointed Chief Financial Officer on an interim basis until May 1, 2001, when Robert R. Dalley was appointed to serve as the new Senior Vice President and Chief Financial Officer.

Board of Directors Committees:

Executive

Harold C. Yancey, Chair
Kent H. Cannon
Nolan E. Karras

Audit/Compliance

Mary Anne Q. Wood, Chair
William H. Nelson
K. Fred Skousen*

Human Resources

Harold C. Yancey, Chair
Kent H. Cannon
Althea R. DeBrule*
Peggy M. Stone*
Mary Anne Q. Wood

Investment/Asset Liability Management

William R. Walker, Chair
Kent H. Cannon
Roger G. Clarke*
Bruce H. Cundick*
Ned C. Hill
Nolan E. Karras

Marketing

Rulon E. Rasmussen, Chair
Vincent S. Benfell*
Lyle Bowen*
Kent H. Cannon
J. Richard Clarke*
Paul R. Decker*
Richard Headlee*
Allen B. Himmelman*
John W. Homer*
William R. Walker
Robert B. Young*

* Non-board members

Conflict of Interest Procedure

The Company had an established procedure for disclosure to its board of directors of any material conflict of interest on the part of its officers, directors or responsible employees. Under these procedures, each person was required to file an annual conflict of interest statement disclaiming or disclosing any material conflict of interest. No exceptions were noted in a review of filed conflict of interest statements.

Corporate Records

In general, the minutes of meetings indicated that the sole stockholder, directors, and committees adequately approved and supported the Company's transactions and events. In accordance with U.C.A. § 31A-2-204(8), the Company promptly furnished a copy of the prior Department examination report to each member of its board.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

Effective December 31, 1998, Pacific Heritage Assurance Corporation, an Oregon insurance company and a wholly owned subsidiary of the Company, was merged into the Company pursuant to a Plan of Merger, which was approved by the Oregon Department of Consumer and Business Services. By order of the Utah Commissioner, the requirement that the Company file a Holding Company Form A, Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer, was waived. As of January 1, 1998, Pacific Heritage Assurance Corporation had ceased marketing insurance coverage.

Surplus Debentures

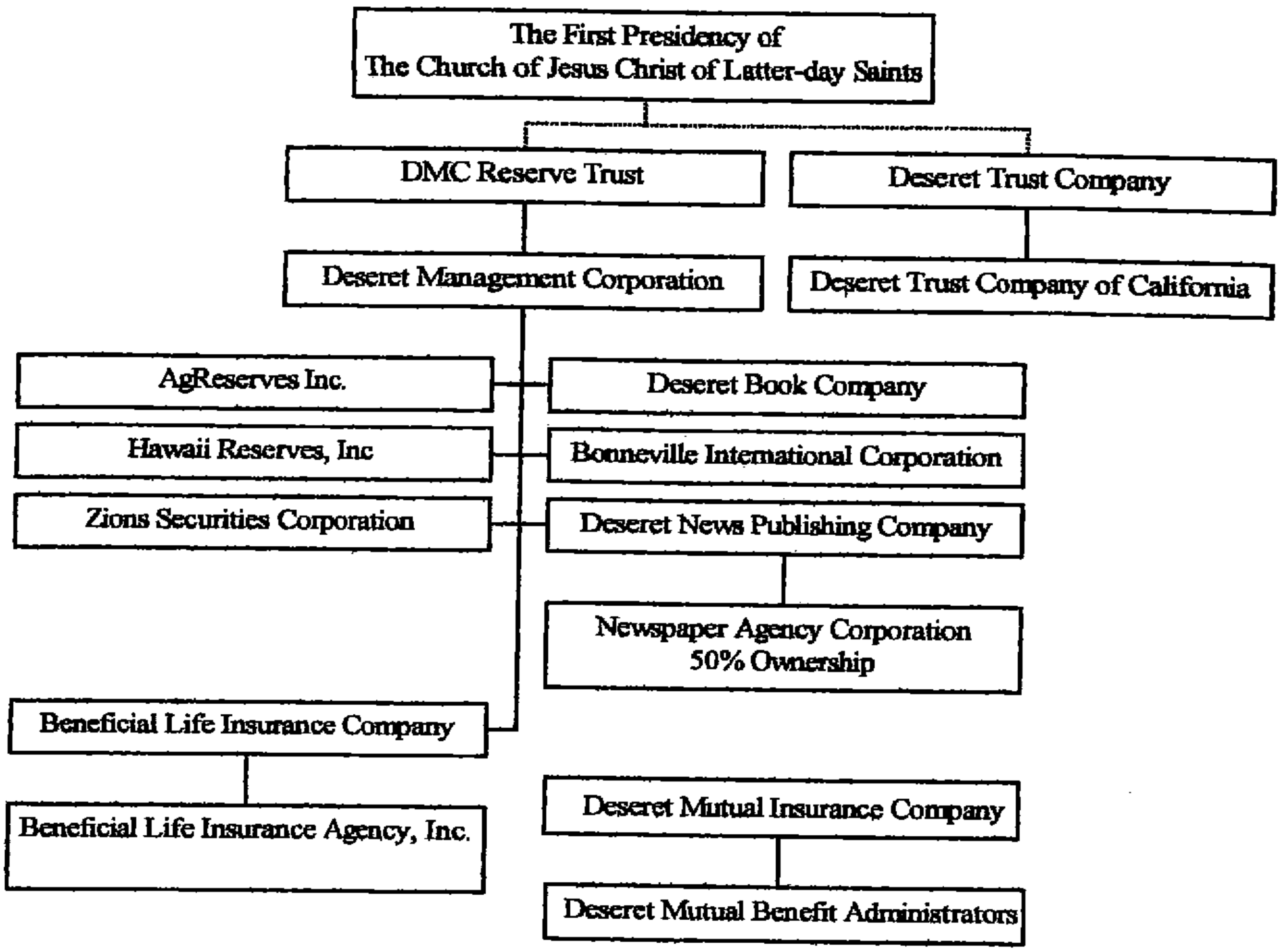
No debentures were issued or retired during the examination period and none was outstanding as of December 31, 2000.

AFFILIATED COMPANIES

The Company is a member of an insurance holding company system. Through common ownership, management, or control, the Company is affiliated with numerous entities within the holding company system. In 1996, the Department permitted the Company to file with its future holding company registration statements and annual statements an abbreviated organizational chart, which excludes religious and educational entities. By order, dated October 22, 1998, the entity that is to be considered the ultimate controlling party or entity is Deseret Management Corporation.

An organizational chart as reported in the 2000 annual statement and the 2000 holding company registration statement filing presenting the identities of and interrelationships between the parent and its affiliates on December 31, 2000, is shown on the following page.

Insurance Holding Company System



The Church of Jesus Christ of Latter-day Saints is an unincorporated religious association, which is overseen by the three members of the First Presidency. The First Presidency indirectly controls the Company by virtue of its power to appoint the trustees of DMC Reserve Trust. DMC Reserve Trust is a trust created by The Church of Jesus Christ of Latter-day Saints. DMC Reserve Trust holds no assets other than the stock of Deseret Management Corporation. While DMC Reserve Trust holds all of the voting stock of Deseret Management Corporation and therefore may have an indirect ability to direct the policies and management of the Company, its sole purpose is to hold Deseret Management Corporation's stock in trust for religious, charitable and educational purposes. Deseret Management Corporation is the entity that has the direct ability to influence the management and policies of the Company.

Deseret Mutual Insurance Company and Deseret Mutual Benefit Administrators are controlled by the companies identified in the chart and other affiliates to provide employee benefits. Deseret Mutual Benefit Administrators provides Company employees with life, disability, medical, and dental insurance through Deseret Healthcare, a self-insured trust. The

Company provides excess group life insurance and accidental death and dismemberment insurance to Deseret Healthcare.

The Company's federal income tax returns were consolidated with Deseret Management Corporation and other Deseret Management Corporation subsidiaries. The allocation of income taxes was based upon separate return calculations with provision for carry back and carry forward of net operating losses.

FIDELITY BOND AND OTHER INSURANCE

The amount of fidelity insurance coverage recommended by the NAIC for an insurer of the Company's size is between $1,750,000 and $2,000,000. At the examination date, the Company had fidelity coverage with a single loss limit of $1,500,000 and a single loss deductible of $50,000.

The Company was also a named insured under policies providing property, liability, flood, and earthquake coverage.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company offered employees a comprehensive benefit package through Deseret Mutual Benefit Administrators. Benefit plans included a choice of several medical and dental insurance plans, including vision care, group term life insurance, accidental death and dismemberment, and disability benefits. Participation in a tax qualified defined benefit retirement plan and a 401(k) plan was also available to full time employees.

The Company sponsored a qualified defined contribution 401(k) plan for its full-time agents. The plan required a participant contribution equal to 2% of compensation. The Company's matching contribution equaled 6% of compensation.

In addition to pension benefits, the Company contributed fixed monthly dollar amounts toward the purchase of medical, dental and life insurance for retired employees. The retirees paid the difference between the fixed amounts and total premiums. The Company was not committed to make any future increases in the fixed monthly dollar amounts. To be eligible for these benefits, employees must have earned pension benefits, have insurance coverage, and be employed when they reach retirement age. In 1993, the Company began advance funding for postretirement medical and dental benefits for employees retiring on or after January 1, 1994. Benefits for employees who retired before January 1, 1994 continued to be funded on a pay-as-you-go basis.

The Company also provided postemployment medical and life insurance benefits for employees on disability and for surviving spouses of deceased active employees. Provision was made in the Company's annual statement financial statements for all Company obligations under the above plans except for the postemployment benefits. An actuarial valuation performed by Deseret Mutual Benefit Administrators established a liability of $149,613 for these benefits.

The Company had an unfunded, non-tax qualified, deferred Executive Incentive Plan. Under the terms of the plan, incentive payments were made to participants once minimum thresholds in various performance categories were exceeded. One-third of the annual base incentive earned was credited to a deferral account. The Company placed an additional amount equal to one-third of the annual base incentive earned in the deferral account. Payments from the deferral accounts are permitted five years after accrual of the incentive payment. The accumulated deferred compensation was recognized as a liability of the Company.

The Company adopted two nonqualifed deferred compensation plans on October 30, 2000. One plan was for a select group of officers and highly compensated employees and for members of the board of directors. The other plan was for a select group of highly compensated sales agents and agency managers. Contributions to the plans were withheld from compensation with payouts permitted over various time frames as elected by the participant. A liability was recognized in the financial statements.

STATUTORY DEPOSITS

The following security was held on deposit in Utah for the benefit of all policyholders, claimants and creditors of the Company.

Description	Par Value	Market Value
U.S. Treasury Note, 6.375%	$ 1,500,000	$ 1,530,000

Deposits not held for the benefit of all policyholders, claimants, and creditors, but held for the policyholders, claimants, and creditors of a particular jurisdiction follow:

State	Description	Par Value	Market Value
Arkansas	U.S. Treasury Note, 6.375%	$ 150,000	$ 153,000
Georgia	U.S. Treasury Note, 6.375%	50,000	51,000
New Mexico	U.S. Treasury Note, 6.375%	100,000	102,000
North Carolina	U.S. Treasury Note, 6.375%	110,000	112,200
Virginia	U.S. Treasury Note, 6.375%	80,000	81,600
Totals		$ 490,000	$ 499,800

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

The Company issued life, annuity, and disability insurance policies. Life policies included universal, whole life, and term. Life insurance was available under the general categories of individual or group, smoker or non-smoker, and participating or non-participating. Depending on the category of the policy and the face amount requested, applications were underwritten non-medically; however, the Company reserved the right to require a medical examination whenever it was deemed necessary. The Company issued non-tax qualified and tax qualified deferred and immediate annuities. Long and short term disability income and individual and group medical insurance made up a small portion of the Company's total premium volume.

Several additional benefits were available as policy riders that could be attached to the above polices. These riders included accidental death, disability waiver of premium, guaranteed insurability, spouse and dependant coverage, supplemental voluntary group life, accelerated benefits and an accelerated death benefit rider for long term care.

As of December 31, 2000, the Company's retention schedule, shown below, included a combination of individual life, term riders, and accidental death insurance.

		Substandard Risks *		
Issue Age	Standard	Tables A-D	Tables E-H	Tables I-P
0-75	$500,000	$500,000	$500,000	$500,000
76-80	500,000	500,000	250,000	250,000
81-89	250,000	250,000	250,000	250,000
90**	250,000	250,000	250,000	250,000

* Tables refer to increased mortality risk. In general, table A requires a 25% greater premium than a standard risk and each succeeding table is 25% higher than the preceding table.

** No automatic reinsurance available.

The retention limit for joint life products with joint issue ages 20-90 was $500,000. The combined group retention limit, which included life, supplemental life and accidental death and dismemberment, was $250,000.

Territory and Plan of Operation

The Company was an authorized insurer in the following jurisdictions:

Alabama	Kansas	Ohio
Alaska	Kentucky	Oklahoma
Arizona	Louisiana	Oregon
Arkansas	Maryland	Pennsylvania
California	Massachusetts	Rhode Island
Colorado	Michigan	South Carolina
Connecticut	Minnesota	South Dakota
Delaware	Mississippi	Tennessee
District of Columbia	Missouri	Texas
Florida	Montana	Utah
Georgia	Nebraska	Vermont
Hawaii	Nevada	Virginia
Idaho	New Jersey	Washington
Illinois	New Mexico	West Virginia
Indiana	North Carolina	Wisconsin
Iowa	North Dakota	Wyoming

Subsequent to the examination period, the Company obtained certificates of authority in Maine and New Hampshire.

The Company markets its individual products through career and independent life insurance agencies. These agencies are concentrated in the Western United States, but the Company is gradually expanding throughout the country. An agency manager supervises each agency. A home office staff, under the direction of the Chief Marketing Officer, supervises agency managers. The Company markets its group products through independent agents, who are directly supervised by the home office group.

Advertising and Sales Material

The Company's insurance agencies and individual agents did most of the Company's advertising. Agent contracts require the pre-approval of advertisements utilizing the Company's name or logo.

An internal audit of the Company's advertising procedures, conducted in December 2000, by Deseret Management Corporation's internal audit staff disclosed the following deficiencies:

(1) Three of 19 advertising files reviewed did not contain final advertising copy;
(2) notification, indicating the manner and extent of advertising distribution and the form number of any policy advertised, was not attached to each advertisement in the advertising file; and
(3) four of 19 selected advertising texts created an inference that tax advice was provided, and did not include a statement that the Company does not provide legal or tax advice, and that the customer should seek his or her own expert advice.

In response to the audit comments, the Company strengthened its existing advertising controls to ensure compliance with regulatory requirements pertaining to advertising. A review, performed by the examiners, of advertising files subsequent to the internal audit did not disclose any material deficiencies.

Treatment of Policyholders

The Company maintained control over policyholder complaints throughout the examination period. Written procedures to handle written complaints were in place. In December of 1997, the Company implemented a computerized record of written complaints. Hardcopy complaint files supplemented the computerized record. From December 1, 1997, through August 29, 2001, the Company recorded 363 written policyholder complaints.

During the examination period, thirty general type complaints were filed with the Department. Three were filed in year 2000, seven in 1999, nine in 1998 and eleven in 1997.

REINSURANCE

Assumed

The Company's assumed reinsurance included individual and group yearly renewable term, individual life and annuity coinsurance, individual life and annuity modified coinsurance, individual and group accidental death benefits, and group accident and health insurance. In excess of 90% of the Company's assumed reserves for life policies and contracts was from coinsurance agreements with two companies, Clarica Life Insurance Company, effective January 1, 1989, and American Memorial Life Insurance Company, effective September 30, 1984, January 1, 1985, and January 1, 1986.

The Company had a modified coinsurance agreement with National Life Insurance Company ("NLV") for variable products. The agreement allowed the Company to sell a variable product that was developed by NLV and the Company. The product was sold on NLV's policy form with 50% of the business ceded back to the Company. NLV held the entire reserve and was responsible for investments held under the arrangement.

Ceded

Business written above the Company's retention limits, described under the caption, Insurance Products and Related Practices – Policy Forms and Underwriting, was ceded on an automatic or facultative basis. The Company used automatic reinsurance pooling arrangements to reinsure most of its life insurance risk. Business that did not meet the criteria for automatic reinsurance was ceded on a facultative basis. Facultative reinsurers included all of the companies accepting risks on an automatic basis.

Two coinsurance treaties accounted for over 95% of the life policies and contracts reserve credit taken. The treaties were with Munich American Reassurance Company, effective June 22, 1998, and Transamerica Occidental Life Insurance Company, effective October 1, 1995.

The Company had catastrophe excess of loss reinsurance coverage that indemnified the Company for the amount of ultimate net loss in excess of $1,000,000 each and every catastrophic accident up to $100,000,000. Catastrophic accident was defined to mean each and every accident or series of accidents arising out of one event or occurrence resulting in the death of three or more persons insured by the Company. The policy specifically excluded loss directly or indirectly occasioned by, happening through or in consequence of war, invasion, civil war, or acts of foreign enemies.

ACCOUNTS AND RECORDS

The Company's accounting system consisted of a general ledger, journals, registers, and statistical records normally maintained by a life insurance company. Prior to 1998, most of the records were maintained on mainframe electronic data processing systems. In 1998, the Company converted from a mainframe environment with information stored on tape reels to a network server-based environment. In 1999, a project was completed that transferred all mainframe reel tape to CDs. Data stored on Company network servers was backed up nightly. Backed up data was stored off site at least weekly.

An examination trial balance, as of December 31, 2000, was prepared from the Company's computerized general ledger. Account balances were traced to annual statement exhibits and schedules without exception. Individual account balances for the examination period were examined as deemed necessary. Accounts and records deficiencies or concerns included the following:

- The Company reported in its annual statements that its special deposits were being held for the benefit of all policyholders, claimants, and creditors. However, deposits held in several states were not held for the benefit of all policyholders, claimants, and creditors.

- The Company valued forty common stocks using the Reuters rating service and one common stock using the certified public accountants' audit report. A "Z" suffix was not affixed to the annual statement NAIC designation indicating that the designation was not obtained from the NAIC Securities Valuation Office as required by annual statement instructions. In addition, the securities were not submitted to the NAIC Securities Valuation Office for valuation within 120 days of the date that the securities were acquired as required by the Purposes and Procedures Manual of the NAIC Securities Valuation Office.

- The Company reported its repurchase agreement account balance as cash rather than as short-term investments as required by the NAIC Accounting Practices and Procedures Manual. Therefore, it was not reported on annual statement Schedule DA Part 1 as required by annual statement instructions.

- Guaranty funds receivable in the amount of $238,903, from or on deposit in states other than Utah were not admitted on the Company's 2000 annual statement. Utah Administrative Code ("U.A.C.") R590-197 includes guaranty fund or guaranty association assessments paid in any state as qualified assets to the extent it is probable the Company will be able to offset the assessments against present or future premium taxes or income taxes paid the state in which the assessments were paid.

- Annual Statement, Exhibit 3, IMR capital gains (losses) were reported in pre-tax column A net of capital gains taxes. The column heading specifically states "Pre-tax Gains (Losses)". Column B entitled "Capital Gains Tax" is blank. In addition, in the calculation of the IMR, the Company assumed a 35% capital gains tax rate. Annual Statement, Exhibit 3, capital gains tax rates for years 1997 through 2000, respectively, were 31.86%, 27.73%, 30.80%, and 24.6%. The average of the four years was 28.75%. The examiner recommends that the Company use a capital gains tax rate that more accurately reflects the Company's actual capital gains tax rate.

- The Company did not include unrealized capital losses on bonds in the calculation of the Asset Valuation Reserve. Annual statement instructions require that all unrealized capital gains and losses on assets covered by the Asset Valuation Reserve be included in the appropriate sub-components. The Company reported mortgage loan prepayment penalties as realized capital realized capital gains in the computation of the Asset Valuation Reserve Mortgage Loans Default Component. Annual statement instructions state that "[p]repayment penalties are deemed to be due to interest rate changes." The prepayment penalties should be classified as interest rate gains or losses and included in the Interest Maintenance Reserve rather than the Asset Valuation Reserve. In addition, in the calculation of the Asset Valuation Reserve, the Company assumed a 35% capital gains tax rate. Annual Statement, Exhibit 3, capital gains tax rates for years 1997 through 2000, respectively, were 31.86%, 27.73%, 30.80%, and 24.6%. The average of the four years was 28.75%. The examiner recommends that the Company use a capital gains tax rate that more accurately reflects the Company's actual capital gains tax rate.

- The Company reported "Receivable on Reinsurance Assumed & Ceded" as a write-in asset and "Reinsurance Assumed & Ceded Amounts Payable" as a write-in liability on its annual statement balance sheets. Chapter 24 of the NAIC Accounting Practices and Procedures Manual for Life, Accident and Health insurance companies states that "[w]hile the various balances that a company (ceding or assuming) has with its reinsurance partners will result in a net amount, the proper way to report them is in their separate classifications." It further states that:

> The ceding company must report these items in its balance sheet:
>
> 1. Credits (deductions) to its policy and claim reserves and unpaid claims;
> 2. Premiums or other amounts payable on reinsured risks;
> 3. Amounts recoverable on claims, surrender values, dividends, experience rating refunds, taxes, commissions, and other expenses;
> 4. Modified coinsurance reserves; and
> 5. Amounts receivable or payable for funds withheld.
>
> Similarly, in its balance sheet, the assuming company must report:
>
> 1. Reserves for reinsurance assumed reduced by any modified coinsurance reserves;
> 2. Reinsurance premiums receivable or other amounts receivable;
> 3. Amounts payable for claims, surrender values, dividends, experience rating refunds, taxes, commissions, and other expenses; and
> 4. Amounts receivable or payable for funds withheld by the ceding company.

As a result of discrepancies discovered during their review, the consulting actuaries made several recommendations that should be addressed by the Company for future reporting. A summary of the recommendations follows:

1. The Company should periodically audit the information provided by ceding companies on assumed business. Although the Company conducted an on site review in December 2000 of business assumed from Clarica Life Insurance Company, it was noted that the Company often relies on summary statements of reserves prepared by ceding companies.

2. An error in the basis used to determine reserves for certain immediate annuity contracts should be corrected. The estimated effect of the error was an overstatement of approximately $21,000.

3. Although differences were generally small, the Company should assure that the correct reserve basis is used for all accidental death and waiver of premium riders. Some of the contracts tested were reserved at the stated basis while others were reserved at 50% of the modal premium.

4. The Company should correct reserve calculations for the small number of disabled life contracts for which the Company incorrectly hard coded the duration of disability. The effect of the error was less than $10,000.

5. The Company should correct the formula error in the spreadsheet used to determine the immediate payment of claims (IPC) liability. The error resulted in a reserve understatement of approximately $700,000.

6. The Company should include reserves for reinsurance in the cash flow testing more frequently. The Company's cash flow testing included over 95% of reserves. The primary portion excluded from testing was reinsurance assumed. While the Company's actuary indicated that reinsurance assumed reserves were tested in 1997 with positive results, the consulting actuaries recommended that assumed reserves be tested more frequently or otherwise be accounted for in the analysis.

FINANCIAL STATEMENT

The Company's financial condition as of December 31, 2000, and the results of its operations during the twelve months then ended, as determined by examination, are reported in the following financial statements:

Balance Sheet as of December 31, 2000
Summary of Operations – January 1, 2000 through December 31, 2000
Capital and Surplus – January 1, 1997 through December 31, 2000

The accompanying comments on financial statements are an integral part of these statements.

Beneficial Life Insurance Company
Balance Sheet
As of December 31, 2000

ADMITTED ASSETS

	Amount	Notes
Bonds	$1,699,940,754	
Preferred stocks	77,900	
Common stocks	56,073,507	
Mortgage loans on real estate	14,822,581	
Real estate:		
Properties occupied by the company	2,373,005	
Investment real estate	4,057,031	
Policy loans	137,678,948	
Cash and short-term investments	43,962,671	
Electronic data processing equipment	391,184	
Guaranty funds receivable or on deposit	30,882	
Life insurance premiums and annuity considerations deferred and uncollected on in force business	3,722,820	(1)
Accident and health premiums due and unpaid	3,224	
Investment income due and accrued	20,537,021	
Aggregate write-ins for other than invested assets:		
Reserve impound escrow advance – mortgage loans	1,099	
Other miscellaneous receivables	0	(2)
Reinsurance receivable – NLV	810,608	(3)
Receivable on reinsurance assumed and ceded	975,428	
Total assets	$1,985,458,663	

Continued on the following page.

Beneficial Life Insurance Company
Balance Sheet (Continued)
As of December 31, 2000

LIABILITIES

Aggregate reserve for life policies and contracts	$1,609,390,621	
Aggregate reserve for accident and health policies	677,845	
Supplementary contracts without life contingencies	36,217,463	
Policy and contract claims – life	8,720,224	
Policy and contract claims – accident and health	5,463,348	
Policyholders' dividend and coupon accumulations	5,613,003	
Dividends apportioned for payment in the following calendar year	3,564,240	
Premiums and annuity considerations received in advance	116,356	
Liability for policyholder premiums	55,908	
Provision for experience rating refunds	886,083	
Commissions to agents due or accrued	1,190,026	
Commissions and expense allowances payable on reinsurance assumed	6,500	
General expenses due or accrued	2,817,997	(4)
Taxes, licenses and fees due or accrued, excluding federal income taxes	1,036,427	
Cost of collection on premiums and annuity considerations deferred and uncollected in excess of total loading thereon	29,716	
Unearned investment income	7,843,437	
Amounts withheld or retained by company as agent or trustee	10,217,012	
Amounts held for agents' account	628,053	
Remittances and items not allocated	1,125,868	
Borrowed money	95,568,265	
Asset valuation reserve	25,834,716	
Payable to parent, subsidiaries and affiliates	0	(5)
Aggregate write-ins for liabilities:		
Special annuity benefits held on deposit	398,796	
Reinsurance assumed and ceded amounts payable	3,370,148	
Provision for legal settlement costs	1,515,000	
Other miscellaneous liabilities	500,369	
Total liabilities	1,822,787,421	
Common capital stock	2,500,000	
Gross paid in and contributed surplus	29,106,890	
Group contingency reserve	4,243,648	
Unassigned funds – surplus	126,820,704	
Total capital and surplus	162,671,242	
Total liabilities, capital stock and surplus	$1,985,458,663	

Beneficial Life Insurance Company
Summary of Operations
January 1, 2000 through December 31, 2000

	Amount
Premiums and annuity considerations	$ 239,981,124
Considerations for supplementary contracts with life contingencies	791,022
Considerations for supplementary contracts without life contingencies and dividend accumulations	5,291,732
Coupons left to accumulate at interest	12,518
Net investment income	133,773,487
Amortization of interest maintenance reserve	(45,483)
Commissions and expense allowances on reinsurance ceded	1,595,945
Aggregate write-ins for miscellaneous income:	
Considerations from coinsurers	26,570
Miscellaneous income	13,315
Income from corporate general agency	3,900,373
Total	385,340,603
Death benefits	69,178,229
Matured endowments (excluding guaranteed annual pure endowments)	341,381
Annuity benefits	24,054,356
Disability benefits and benefits under accident and health policies	602,515
Coupons, guaranteed annual pure endowments and similar benefits	56,663
Surrender benefits and other fund withdrawals	149,163,765
Group conversions	(131,757)
Interest on policy or contract funds	954,899
Payments on supplementary contracts with life contingencies	3,631,202
Payments on supplementary contracts without life contingencies and for dividend accumulations	10,768,970
Accumulated coupon payments	9,095
Increase in aggregate reserves for life and accident and health policies and contracts	49,415,287
Increase in reserve for supplementary contracts without life contingencies and for dividend and coupon accumulations	(5,493,367)
Total	302,551,238
Commissions on premiums, annuity considerations and deposit-type funds	22,042,307
Commissions and expense allowances on reinsurance assumed	1,447,639
General insurance expenses	28,160,023
Insurance taxes, licenses and fees, excluding federal income taxes	4,601,999
Increase in loading on and cost of collection in excess of loading on deferred and uncollected premiums	(141,912)
Reinsurance reserves paid or payable	4,799,381
Increase in reserves for experience refund	44,756
Total	363,505,431
Net gain from operations before dividends to policyholders and federal income taxes	21,835,172
Dividends to policyholders	3,480,376
Net gain from operations after dividends to policyholders and before federal income taxes	18,354,796
Federal income taxes incurred (excluding tax on capital gains)	4,151,358
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	14,203,438
Net realized capital gains or (losses) less capital gains tax transferred to the IMR	6,054,371
Net income	$ 20,257,809

Beneficial Life Insurance Company
Capital and Surplus
January 1, 1997 through December 31, 2000

	1997	1998	1999	Per Exam 2000
Capital and surplus December 31, previous year	$140,868,964	$159,229,990	$166,667,292	$157,612,736
Net income	20,309,532	31,423,405	15,471,596	20,257,809
Change in net unrealized capital gains or (losses)	7,362,429	596,204	4,077,610	(18,641,376)
Change in non-admitted assets and related items	(935,904)	(869,796)	(6,442,646)	(346,311)
Change in reserve on account of change in valuation basis		(1,079,182)		
Change in asset valuation reserve	(7,375,031)	(3,633,329)	(5,061,116)	8,464,353
Dividends to stockholders	(1,000,000)	(19,000,000)	(17,100,000)	(1,500,000)
Prior year tax adjustments				(3,175,969)
Net change in capital and surplus for the year	18,361,026	7,437,302	(9,054,556)	5,058,506
Capital and surplus, December 31, current year	$159,229,990	$166,667,292	$157,612,736	$162,671,242

COMMENTS ON FINANCIAL STATEMENT

(1) <u>Life insurance premiums and annuity considerations deferred and uncollected on in force business</u> **<u>$ 3,722,820</u>**

The reported amount, $4,671,877, was decreased by $949,057. Only the qualified assets listed under U.C.A. § 31A-17-201 may be used in determining the financial condition of an insurer. U.C.A. § 31A-17-201(2)(b) allows, as a qualified asset, the net amount of uncollected premiums for life insurance that carries the full annual mean tabular reserve liability. Group life net due premiums were not admitted because the group life insurance did not carry the full annual mean tabular reserve liability. Subsequent to the examination period, life insurance is not required to carry the full annual mean tabular reserve liability in order to allow uncollected premiums as a qualified asset.

(2) <u>Other miscellaneous receivables</u> **<u>$ 0</u>**

Amounts recoverable or receivable from reinsurers under reinsurance contracts that qualified for reserve credit under U.C.A. § 31A-17-404 in the amount of $810,608 were reclassified to "Reinsurance receivable – NLV". An unsecured receivable in the amount of $600,000 resulting from the cancellation of a lease agreement was not admitted. U.C.A. §§ 31A-17-201and 202 do not permit this type of receivable to be used in determining the financial condition of an insurer. Subsequent to the examination period, the unsecured receivable was collected.

(3) <u>Reinsurance receivable – NLV</u> **<u>$ 810,608</u>**

Reinsurance receivables in the amount of $810,608 were reclassified from "Other miscellaneous receivables".

(4) <u>General expenses due or accrued</u> **<u>$ 2,817,997</u>**

The reported amount, $2,668,384 was increased by $149,613. The increase represents an unreported post-employment benefit liability. U.A.C. § R590-117-4(A)2 requires that all liabilities known to the reporting insurer, except liabilities specifically exempted or precluded by the reporting form, be reported.

(5) <u>Payable to parent, subsidiaries and affiliates</u> **<u>$ 0</u>**

The Company reported a negative liability in the amount of $91,604, which should have been reported as a not admitted receivable from parent, subsidiaries and affiliates. In accordance with U.C.A. § 31A-17-201, receivables from parent, subsidiaries and affiliates are not admitted in the determination of the financial condition of insurers.

CAPITAL AND SURPLUS

The Company's capital and surplus was determined to be $1,790,274 less than reported. The following schedule identifies examination changes:

Description	Annual Statement Dr (Cr)	Examination	Reclass-ification	Change in Surplus Inc (Dec)	Notes
Life insurance premiums and annuity considerations deferred and uncollected	$ 4,671,877	$ 3,722,820		$ (949,057)	(1)
Other miscellaneous receivables	1,410,608	0	$(810,608)	(600,000)	(2)
Reinsurance receivable -- NLV		810,608	810,608	0	(3)
General expenses due or accrued	(2,668,384)	(2,817,997)		(149,613)	(4)
Payable to parent, subsidiaries and affiliates	91,604	0		(91,604)	(5)
Total changes			$ 0	(1,790,274)	
Capital and surplus per Company				164,461,516	
Capital and surplus per examination				$162,671,242	

U.C.A. § 31A-5-211 required the Company to maintain minimum capital in the amount of $400,000. In accordance with U.C.A. 31A-17, Part VI, the Company reported total adjusted capital in the amount of $192,078,352 and authorized control level Risk-Based Capital ("RBC") in the amount of $28,306,988. The examination determined total adjusted capital to be $190,288,078 and accepted the Company's calculation of its authorized control level RBC. Examination adjustments would not have a material effect on the authorized control level RBC calculation.

SUMMARY

Items of significance or special interest contained in this report are summarized below:

(1) As of December 31, 2000, Deseret Management Corporation, a holding company affiliated with The Church of Jesus Christ of Latter-day Saints, held one hundred percent of the Company's capital stock. (**HISTORY** – Capital Stock)

(2) Subsequent to the examination period, Bruce Cundick, Senior Vice President and Chief Financial Officer, resigned. Michael Weiler was appointed Chief Financial Officer on an interim basis until May 1, 2001, when Robert R. Dalley was appointed to serve as the new Senior Vice President and Chief Financial Officer. (**HISTORY** – Management)

(3) Effective December 31, 1998, Pacific Heritage Assurance Corporation, an Oregon insurance company and a wholly owned subsidiary of the Company, was merged into the Company. (**HISTORY** – Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance)

(4) By order, dated October 22, 1998, the entity that is to be considered the ultimate controlling party or entity is Deseret Management Corporation. **(AFFILIATED COMPANIES)**

(5) The amount of fidelity insurance coverage recommended by the NAIC for an insurer of the Company's size is between $1,750,000 and $2,000,000. At the examination date, the Company had fidelity coverage with a single loss limit of $1,500,000 and a single loss deductible of $50,000. **(FIDELITY BOND AND OTHER INSURANCE)**

(6) As of December 31, 2000, the Company held certificates of authority in 48 jurisdictions. **(INSURANCE PRODUCTS AND RELATED PRACTICES** –Territory and Plan of Operation)

(7) Several accounts and records deficiencies or concerns were identified. **(ACCOUNTS AND RECORDS)**

(8) The consulting actuaries made several recommendations. **(ACCOUNTS AND RECORDS)**

(9) The Company was required to maintain minimum capital in the amount of $400,000. The Company reported total adjusted capital in the amount of $192,078,352 and authorized control level Risk-Based Capital ("RBC") in the amount of $28,306,988. The examination determined total adjusted capital to be $190,288,078 and accepted the Company's calculation of its authorized control level RBC. **(CAPITAL AND SURPLUS)**

CONCLUSION

Assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company are acknowledged. In addition to the undersigned, Allen Hart, CFE, Senior Financial Examiner, Donald R. Catmull, Financial Examiner, and Faanu Laufiso, Financial Examiner participated in the examination. John Kay, CFE, CIE, Assistant Chief Examiner supervised the examination. Lorraine Mayne, FSA, MAAA, Consulting Actuary with Milliman USA conducted the actuarial phases of the examination.

Respectfully submitted,

C. Kay Anderson

C. Kay Anderson, CFE
Examiner-in-Charge, representing the
Utah Insurance Department

Jerry A. Mahoney

Jerry A. Mahoney, CFE, CIE
Senior Financial Examiner
State of Nevada
Department of Business and Industry
Division of Insurance
Representing Western Zone, Zone IV